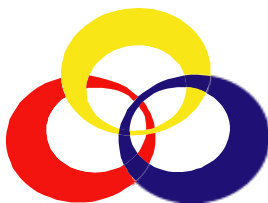


FINANCIAL AUDIT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2016



CITY OF MILROY,  
MINNESOTA



**Kinner & Company Ltd**  
Certified Public Accountants  
Taxes, QuickBooks &  
Investments

**CITY OF MILROY  
MILROY, MINNESOTA  
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## **INTRODUCTORY SECTION**

**CITY OF MILROY  
MILROY, MINNESOTA  
DECEMBER 31, 2016**

ELECTED AND APPOINTED OFFICIALS

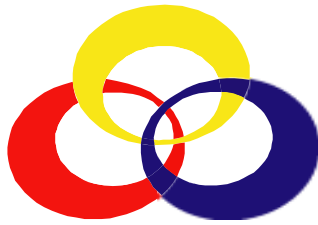
Elected

Jeff VanDeWiele	Mayor
Cheryl Bowman	Council Member
Elizabeth Graham	Council Member
Larry Karsten	Council Member
Renee Zwach	Council Member

Appointed

Bette Snyder	Clerk-Treasurer
Kevin Passe	Attorney

## **FINANCIAL SECTION**



**Kinner & Company Ltd**  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the Council  
City of Milroy  
Milroy, Minnesota 56263

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Milroy, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milroy, Minnesota as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Fire Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Milroy, Minnesota's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March, 2017, on our consideration of the City of Milroy, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Milroy's internal control over financial reporting and compliance.

*Kinner & Company Ltd*

Kinner & Company Ltd  
Certified Public Accountants

March 27, 2017

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

This discussion and analysis is intended to be an easily readable analysis of the City of Milroy's financial activities based on currently known facts, decisions or conditions. Since this information is designed to focus on the current year's activities, it should be read in conjunction with the Financial Statements which begin on page 11.

**FINANCIAL HIGHLIGHTS**

**WATER FUND:** Due to the water improvement project in 2015, improvement rates were increased. The City will look at these rates each year to assess this fund.

**SEWER FUND:** The sewer fund has had considerable costs for chemicals once again in 2016 and 2015. The City has worked very hard to keep this under control. Improvement rates were increased during the prior year to help cover costs. The City will look at these rates each year to assess this fund.

**FIRE FUND:** The Fire Department continues to apply for FEMA grant and have been successful in receiving grants. They will continue to apply for these.

**FITNESS CENTER FUND:** The Fitness Center fund primarily consists of membership dues for monthly access to the fitness center.

**GARBAGE FUND:** Garbage service is provided to the residents and is not a major source of revenue.

**GENERAL FUND:** The General Fund receives a majority of their revenues from property taxes and intergovernmental revenues.

**EDA FUND:** The EDA has been working to start a housing development within the city. The development was started in 2006 but was put on hold due to the developer and the housing market. The EDA will continue to work on this project and are also working to acquire unoccupied commercial property within the City. The EDA now owns apartment buildings it rents out.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.



**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**REPORTING THE CITY AS A WHOLE**

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes therein. You can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the fire department, public works, parks and general administration. Property taxes and State and Federal grants finance most of these activities.
- Business-type Activities- The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and garbage are reported here.

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and proprietary- use different accounting approaches.

- Governmental Funds- Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

- Proprietary Funds - When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**THE CITY AS A WHOLE**

The City's combined net position decreased \$10,671 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1**

<b>Net Position</b>	Governmental Activities		Business-Type Activities		2016
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Total</u>
Current and other assets	\$333,954	\$326,503	\$330,595	\$319,984	\$664,549
Capital assets	<u>504,722</u>	<u>503,607</u>	<u>395,001</u>	<u>429,641</u>	<u>899,723</u>
Total assets	<u>838,676</u>	<u>830,110</u>	<u>725,596</u>	<u>749,625</u>	<u>1,564,272</u>
Deferred Outflows	<u>28,983</u>	<u>6,212</u>	<u>14,930</u>	<u>3,200</u>	<u>43,913</u>
Long-term liabilities outstanding	79,664	44,466	453,986	463,906	
Other liabilities	<u>4,717</u>	<u>14,002</u>	<u>40,557</u>	<u>29,671</u>	<u>45,274</u>
Total liabilities	<u>84,381</u>	<u>58,468</u>	<u>494,543</u>	<u>493,577</u>	<u>578,924</u>
Deferred Inflows	<u>8,760</u>	<u>6,892</u>	<u>4,512</u>	<u>3,550</u>	<u>13,272</u>
Net position					
Net investment in capital assets	504,722	503,607	24,007	48,646	528,729
Unrestricted	<u>269,796</u>	<u>267,355</u>	<u>217,464</u>	<u>207,052</u>	<u>487,260</u>
	<u>\$774,518</u>	<u>\$770,962</u>	<u>\$241,471</u>	<u>\$255,698</u>	<u>\$1,015,989</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, for the City as a whole, as well as for its separate governmental and business-type activities.

**CITY OF MILROY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2016**

**Governmental activities.** Governmental activities increased the City's net position by \$3,556. Key elements of this increase are as follows:

**Table 2**

Changes in Net Position	Governmental Activities		Business-type Activities		2016
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Total</u>
Revenues:					
Charges for services	\$36,802	\$36,444	\$151,753	\$137,262	\$188,555
Operating Grants and contributions	10,398	11,405			10,398
Capital grants and contributions	0	0			0
General Revenues					
Property taxes	150,787	149,574			150,787
Special Assessments	425	700	204		425
Intergovernmental Revenue	76,227	87,351	148		76,227
Grants & Contributions not restricted to specific programs	1,210	0			1,210
Unrestricted Investment Earnings	963	770			963
Miscellaneous	11,313	7,910			11,313
Total Revenues	<u>288,125</u>	<u>294,154</u>	<u>152,105</u>	<u>137,262</u>	<u>440,230</u>
Expenses:					
General Administrative	139,848	134,445			139,848
Public Safety	66,079	65,627			66,079
Streets & Highways	62,492	52,484			62,492
Cultural & Recreation	15,016	7,722			15,016
Economic Development	2,460	2,566			2,460
Fitness Center	6,175	8,740			6,175
Depreciation - Unallocated	10,499	9,607			10,499
Water	0	0	92,217	76,906	92,217
Sewer	0	0	43,145	28,090	43,145
Garbage	0	0	12,970	12,694	12,970
Total expenses	<u>302,569</u>	<u>281,191</u>	<u>148,332</u>	<u>117,690</u>	<u>450,901</u>
Transfers	18,000	16,000	(18,000)	(16,000)	0
Increase (Decrease) in net position	3,556	28,963	(14,227)	3,572	(10,671)
Net Position, January 1	<u>770,962</u>	<u>741,999</u>	<u>255,698</u>	<u>252,126</u>	<u>1,026,660</u>
Net Position, December 31	<u><u>\$774,518</u></u>	<u><u>\$770,962</u></u>	<u><u>\$241,471</u></u>	<u><u>\$255,698</u></u>	<u><u>\$1,015,989</u></u>

The City's total net position decreased in 2016 by \$10,671 and increased in 2015 by \$32,535. The decrease mainly relates to excess depreciation in expense over the prior year.

For the most part, increase in expenses closely paralleled inflation and growth in the demand for service.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Governmental Activities**

For 2016 and 2015, revenue for the City's governmental activities decreased by 2 percent and increased by 12 percent, while total expenses increased by 8 percent in 2016 and increased by 1 percent in 2015. The decrease is due to the City receiving the Small Cities Grant in the prior year and none in 2016. Increase in expenses relates to additional park updates and repairs as well as seal coating in the streets department.

Property tax levies were virtually consistent with the prior year.

Table 3 presents the cost of each of the City's programs- general government, public safety, streets, culture and recreation and economic development- as well as each program's net cost. (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3 Governmental Activities**

	Total Cost of Services	
	<u>2016</u>	<u>2015</u>
General Administration	\$139,848	\$134,445
Public Safety	66,079	65,627
Streets & Highways	62,492	52,484
Cultural & Recreation	15,016	7,722
Economic Development	2,460	2,566
Fitness Center Fund	6,175	8,740
Depreciation – Unallocated	<u>10,499</u>	<u>9,607</u>
Totals	<u><u>\$302,569</u></u>	<u><u>\$281,191</u></u>

**Business-Type Activities**

For 2016 and 2015, revenues of the City's business-type activities (see table 2) increased 11 percent and increased 14 percent and the expenses increased 26 percent and increased by 48 percent. The increase in revenues relates to the increase in monthly improvement fees for the water and sewer fund while the increase in expenses is attributable to additional repairs and maintenance as well as depreciation expense relating to the water meters and Highway 68 project in the water fund.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**THE CITY'S FUNDS**

As the City completed the year, its governmental funds reported a combined fund balance of \$324,055 and \$315,541 for 2016 and 2015. Operations of the City were generally similar to the prior year at the fund level. Increase in fund balance mainly relates to transfers in from the sewer fund.

General Fund Budgetary Highlights:

The City council did not amend the original budget during the current year. General fund revenues were \$17,395 and \$26,360 higher than budget for 2016 and 2015. This variance mainly relates to additional fire aid and dividends. Expenditures were \$29,131 higher than budget in 2016 and \$9,672 lower than budget in 2015. The excess expenditures related to capital outlay for a new truck and mower.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

In 2016 and 2015, the City had \$899,723 and \$933,247 invested in a broad range of capital assets. New additions include a new truck, mower, computer, fitness equipment and fire pagers.

**Table 4**

**Capital Assets at Year End**

	Governmental Activities		Business-type Activities		2016
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Total</u>
Land	\$27,987	\$27,987	\$0	\$0	\$27,987
Buildings & Improvements	388,959	381,211	602,050	602,050	991,009
Equipment	728,832	711,537	0	0	728,832
Totals	<u>1,145,778</u>	<u>1,120,736</u>	<u>602,050</u>	<u>602,050</u>	<u>1,747,828</u>
Less Accumulated Depreciation	<u>(641,056)</u>	<u>(617,129)</u>	<u>(207,049)</u>	<u>(172,409)</u>	<u>(848,105)</u>
Net Capital Assets	<u>\$504,722</u>	<u>\$503,607</u>	<u>\$395,001</u>	<u>\$429,641</u>	<u>\$899,723</u>

More detailed information about the City's capital assets is presented in Note 1 and Note 3.

**CITY OF MILROY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**Debt**

As shown in Table 5, the City has \$441,000 versus \$451,000 in debt versus last year.

**Table 5**

**Debt at Year End**

	Business-Type Activities	
	<u>2016</u>	<u>2015</u>
GO Utility Revenue Bond	<u>\$ 441,000</u>	<u>\$ 451,000</u>
Totals	<u><u>\$ 441,000</u></u>	<u><u>\$ 451,000</u></u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2016.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Milroy, PO Box 9, Milroy, MN 56263.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-Wide Financial Statements

Fund Financial Statements:

Governmental Funds

Proprietary (Enterprise) Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**City of Milroy**  
**Statement of Net Position**  
**December 31, 2016**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 316,819	\$ 317,414	\$ 634,233
Delinquent Taxes Receivable	9,090	--	9,090
Accounts Receivable	773	12,779	13,552
Special Assessments Receivable	641	402	1,043
Prepaid and Other Assets	6,631	--	6,631
<b>Total Current Assets</b>	<b>333,954</b>	<b>330,595</b>	<b>664,549</b>
<i>Noncurrent Assets</i>			
Non-Depreciable	27,987	--	27,987
Depreciable, Net	476,735	395,001	871,736
<b>Total Assets</b>	<b>838,676</b>	<b>725,596</b>	<b>1,564,272</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Aggregated deferred outflows	28,983	14,930	43,913
<b>Total Deferred Outflows of Resources</b>	<b>28,983</b>	<b>14,930</b>	<b>43,913</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	2,220	1,133	3,353
Accrued Interest Payable	--	5,374	5,374
Deposits	1,100	9,050	10,150
Unearned Revenue	1,397	--	1,397
Bonds Payable-due within one year	--	25,000	25,000
<b>Total Current Liabilities</b>	<b>4,717</b>	<b>40,557</b>	<b>45,274</b>
<i>Noncurrent Liabilities</i>			
Accrued Leave	9,999	2,098	12,097
Bonds Payable-due beyond one year	--	416,000	416,000
Net Pension Liability	69,665	35,888	105,553
<b>Total Liabilities</b>	<b>84,381</b>	<b>494,543</b>	<b>578,924</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Aggregated deferred inflows	8,760	4,512	13,272
<b>Total Deferred Inflows of Resources</b>	<b>8,760</b>	<b>4,512</b>	<b>13,272</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	504,722	24,007	528,729
<i>Unrestricted</i>	269,796	217,464	487,260
<b>Total Net Position</b>	<b>\$ 774,518</b>	<b>\$ 241,471</b>	<b>\$ 1,015,989</b>

The notes to the financial statements are an integral part of this statement.



**City of Milroy  
Statement of Activities  
For the Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General Government and Administration	\$ 139,848	\$ 3,970	\$ --	\$ --	\$ (135,878)	\$ --	\$ (135,878)
Public safety	66,079	16,500	10,398	--	(39,181)	--	(39,181)
Streets and Highways	62,492	--	--	--	(62,492)	--	(62,492)
Culture and Recreation	15,016	--	--	--	(15,016)	--	(15,016)
Fitness Center	6,175	9,702	--	--	3,527	--	3,527
Depreciation-Unallocated	10,499	--	--	--	(10,499)	--	(10,499)
Economic Development	2,460	6,630	--	--	4,170	--	4,170
<b>Total Governmental Activities</b>	<b>302,569</b>	<b>36,802</b>	<b>10,398</b>	<b>--</b>	<b>(255,369)</b>	<b>--</b>	<b>(255,369)</b>
<b>Business-type Activities:</b>							
Garbage	12,970	15,661	--	--	--	2,691	2,691
Sewer	43,145	69,276	--	--	--	26,131	26,131
Water	92,217	66,816	--	--	--	(25,401)	(25,401)
<b>Total Business-type Activities</b>	<b>148,332</b>	<b>151,753</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>3,421</b>	<b>3,421</b>
<b>Total Primary Government</b>	<b>\$ 450,901</b>	<b>\$ 188,555</b>	<b>\$ 10,398</b>	<b>\$ --</b>	<b>\$ (255,369)</b>	<b>\$ 3,421</b>	<b>\$ (251,948)</b>
<b>General Purpose Revenues and Transfers:</b>							
<b>Revenues</b>							
Taxes					150,787	--	150,787
Special Assessments					425	204	629
Local Government Aid					61,698	--	61,698
Interest Revenue					963	--	963
Other State Aid					14,529	148	14,677
Donations					1,210	--	1,210
Insurance Dividends					4,552	--	4,552
Other					5,161	--	5,161
Refunds and Reimbursements					1,600	--	1,600
<b>Transfers</b>					18,000	(18,000)	--
<b>Total General Revenues and Transfers</b>					<b>258,925</b>	<b>(17,648)</b>	<b>241,277</b>
<b>Change in Net Position</b>					<b>3,556</b>	<b>(14,227)</b>	<b>(10,671)</b>
<i>Net Position at Beginning of Period</i>					<i>770,962</i>	<i>255,698</i>	<i>1,026,660</i>
<b>Net Position at End of Period</b>					<b>\$ 774,518</b>	<b>\$ 241,471</b>	<b>\$ 1,015,989</b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy  
Balance Sheet  
Governmental Funds  
December 31, 2016**

	<u>Special Revenue</u>			<b>Total Governmental Funds</b>
	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 199,710	\$ 79,371	\$ 37,738	\$ 316,819
Delinquent Taxes Receivable	9,090	--	--	9,090
Accounts Receivable	--	773	--	773
Special Assessments Receivable	641	--	--	641
Prepaid and Other Assets	6,631	--	--	6,631
<i><b>Total Assets</b></i>	<u>216,072</u>	<u>80,144</u>	<u>37,738</u>	<u>333,954</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Aggregated deferred outflows	--	--	--	--
<i><b>Total Assets and Deferred Outflows of Resources</b></i>	<u><b>\$ 216,072</b></u>	<u><b>\$ 80,144</b></u>	<u><b>\$ 37,738</b></u>	<u><b>\$ 333,954</b></u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,893	\$ 158	\$ 169	\$ 2,220
Deposits	--	--	1,100	1,100
Unearned Revenue	--	--	1,397	1,397
<i><b>Total Liabilities</b></i>	<u>1,893</u>	<u>158</u>	<u>2,666</u>	<u>4,717</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Aggregated deferred inflows	5,182	--	--	5,182
<i><b>Total Liabilities and Deferred Inflows of Resources</b></i>	<u>7,075</u>	<u>158</u>	<u>2,666</u>	<u>9,899</u>
<b>FUND BALANCE</b>				
Nonspendable	6,631	--	--	6,631
Committed	53,286	79,986	--	133,272
Assigned	--	--	35,072	35,072
Unassigned	149,080	--	--	149,080
<i><b>Total Fund Balance</b></i>	<u>208,997</u>	<u>79,986</u>	<u>35,072</u>	<u>324,055</u>
<i><b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b></i>	<u><b>\$ 216,072</b></u>	<u><b>\$ 80,144</b></u>	<u><b>\$ 37,738</b></u>	<u><b>\$ 333,954</b></u>

The notes to the financial statements are an integral part of this statement.

## City of Milroy

### Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2016

Total Fund Balance - Governmental Funds	\$	324,055
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position		(9,999)
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		504,722
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		5,182
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(69,665)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(8,760)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		28,983
<b>Total Net Position-Governmental Funds</b>	<b>\$</b>	<b><u>774,518</u></b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2016**

	<u>Special Revenue</u>		<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
	<u>General</u>	<u>Fire</u>		
<b>Revenues</b>				
Taxes	\$ 152,127	\$ --	\$ --	\$ 152,127
Special Assessments	275	--	--	275
Local Government Aid	61,698	--	--	61,698
Other State Aid	13,139	11,500	--	24,639
Licenses, Permits, Fines, and Fees	3,970	--	--	3,970
Charges for Services	--	16,500	16,332	32,832
Refunds and Reimbursements	--	1,600	--	1,600
Donations	300	910	--	1,210
Insurance Dividends	4,552	--	--	4,552
Other	2,300	2,861	--	5,161
Interest Revenue	743	220	--	963
<b>Total Revenues</b>	<u>239,104</u>	<u>33,591</u>	<u>16,332</u>	<u>289,027</u>
<b>Expenditures</b>				
General Government and Administration	132,805	--	--	132,805
Public safety	13,530	24,975	--	38,505
Streets and Highways	49,592	--	--	49,592
Culture and Recreation	10,083	--	--	10,083
Economic Development	--	--	2,460	2,460
Fitness Center	--	--	6,175	6,175
Capital Outlay	48,309	2,838	7,748	58,895
<b>Total Expenditures</b>	<u>254,319</u>	<u>27,813</u>	<u>16,383</u>	<u>298,515</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(15,215)</u>	<u>5,778</u>	<u>(51)</u>	<u>(9,488)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	18,000	39,933	--	57,933
Transfers to Other Funds	(39,933)	--	--	(39,933)
<b>Net Other Financing Sources (Uses)</b>	<u>(21,933)</u>	<u>39,933</u>	<u>--</u>	<u>18,000</u>
<b>Net Change in Fund Balance</b>	<b>(37,148)</b>	<b>45,711</b>	<b>(51)</b>	<b>8,512</b>
<i>Fund Balance at Beginning of Period</i>	<u>246,145</u>	<u>34,275</u>	<u>35,123</u>	<u>315,543</u>
<b>Fund Balance at End of Period</b>	<b>\$ 208,997</b>	<b>\$ 79,986</b>	<b>\$ 35,072</b>	<b>\$ 324,055</b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Reconciliation of Governmental Funds Statement of**  
**Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended December 31, 2016**

Total Net Change in Fund Balances - Governmental Funds	\$	8,512
Revenue that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds, and are instead considered deferred inflows.		(1,189)
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		58,895
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements		(57,778)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.		(588)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.		(4,295)
<b>Changes in Net Position-Governmental Funds</b>	<b>\$</b>	<b><u>3,556</u></b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2016**

<b>Business-type Activities - Enterprise Funds</b>				
	<b>Sewer</b>	<b>Water</b>	<b>Non-Major Garbage</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 139,708	\$ 156,016	\$ 21,690	\$ 317,414
Accounts Receivable	8,763	2,229	1,787	12,779
Special Assessments Receivable	308	94	--	402
<b>Total Current Assets</b>	<b>148,779</b>	<b>158,339</b>	<b>23,477</b>	<b>330,595</b>
<i>Noncurrent Assets</i>				
Depreciable, Net	20,092	374,909	--	395,001
<b>Total Assets</b>	<b>168,871</b>	<b>533,248</b>	<b>23,477</b>	<b>725,596</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Aggregated deferred outflows	7,465	7,465	--	14,930
<b>Total Deferred Outflows of Resources</b>	<b>7,465</b>	<b>7,465</b>	<b>--</b>	<b>14,930</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	--	69	1,064	1,133
Accrued Interest Payable	--	5,374	--	5,374
Deposits	--	9,050	--	9,050
Bonds Payable-due within one year	--	25,000	--	25,000
<b>Total Current Liabilities</b>	<b>--</b>	<b>39,493</b>	<b>1,064</b>	<b>40,557</b>
<i>Noncurrent Liabilities</i>				
Accrued Leave	1,049	1,049	--	2,098
Bonds Payable-due beyond one year	--	416,000	--	416,000
Net Pension Liability	17,944	17,944	--	35,888
<b>Total Liabilities</b>	<b>18,993</b>	<b>474,486</b>	<b>1,064</b>	<b>494,543</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Aggregated deferred inflows	2,256	2,256	--	4,512
<b>Total Deferred Inflows of Resources</b>	<b>2,256</b>	<b>2,256</b>	<b>--</b>	<b>4,512</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	20,092	3,915	--	24,007
<i>Unrestricted</i>	134,995	60,056	22,413	217,464
<b>Total Net Position</b>	<b>\$ 155,087</b>	<b>\$ 63,971</b>	<b>\$ 22,413</b>	<b>\$ 241,471</b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2016**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sewer</b>	<b>Water</b>	<b>Non-Major Garbage</b>	<b>Total Enterprise Funds</b>
<b>Operating Revenues</b>				
Special Assessments	\$ 308	\$ (104)	\$ --	\$ 204
Other State Aid	74	74	--	148
Charges for Services	41,972	39,498	15,661	97,131
Improvement Fees	27,304	27,318	--	54,622
<b>Total Operating Revenues</b>	<b>69,658</b>	<b>66,786</b>	<b>15,661</b>	<b>152,105</b>
<b>Operating Expenses</b>				
Sewer Operations	18,286	--	--	18,286
Water Operations	--	15,456	--	15,456
Garbage Operations	--	--	12,970	12,970
Depreciation	2,504	32,135	--	34,639
Salaries and Wages	12,653	12,653	--	25,306
Payroll taxes and Benefits	3,074	3,074	--	6,148
Dues/Conferences/Training	1,310	1,032	--	2,342
Office Supplies and Expenses	229	272	--	501
Telephone	80	81	--	161
Utilities	2,104	1,729	--	3,833
Repairs and Maintenance	2,676	11,617	--	14,293
Miscellaneous	25	25	--	50
Shop Supplies	204	809	--	1,013
<b>Total Operating Expenses</b>	<b>43,145</b>	<b>78,883</b>	<b>12,970</b>	<b>134,998</b>
<b>Operating Income (Loss)</b>	<b>26,513</b>	<b>(12,097)</b>	<b>2,691</b>	<b>17,107</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Expense	--	(12,959)	--	(12,959)
Bond Issuance Costs	--	(375)	--	(375)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>--</b>	<b>(13,334)</b>	<b>--</b>	<b>(13,334)</b>
<b>Income Before Contributions and Transfers</b>	<b>26,513</b>	<b>(25,431)</b>	<b>2,691</b>	<b>3,773</b>
Transfers from Other Funds	--	6,000	--	6,000
Transfers to Other Funds	(24,000)	--	--	(24,000)
<b>Change In Net Position</b>	<b>2,513</b>	<b>(19,431)</b>	<b>2,691</b>	<b>(14,227)</b>
<i>Net Position at Beginning of Period</i>	152,574	83,402	19,722	255,698
<b>Net Position at End of Period</b>	<b>\$ 155,087</b>	<b>\$ 63,971</b>	<b>\$ 22,413</b>	<b>\$ 241,471</b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Cash Flows-Proprietary Funds**  
**For the Year Ended December 31, 2016**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Major Sewer</b>	<b>Water</b>	<b>Non-Major Garbage</b>	
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$ 68,370	\$ 67,565	\$ 15,593	\$ 151,528
Cash Paid to Employees	(12,502)	(12,502)		(25,004)
Cash Paid for Goods and Services	(27,005)	(33,508)	(12,280)	(72,793)
Net Cash Provided (Used) by Operating Activities	<u>29,171</u>	<u>21,555</u>	<u>3,313</u>	<u>54,039</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Operating Transfers Out	(24,000)	6,000	-	(18,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(24,000)</u>	<u>6,000</u>	<u>-</u>	<u>(18,000)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Issuance of Revenue Bond	-	(375)	-	(375)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(26,599)</u>	<u>-</u>	<u>(26,599)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>5,171</u>	<u>956</u>	<u>3,313</u>	<u>9,440</u>
Cash and Cash Equivalents - Beginning of Year	134,537	155,059	18,377	307,973
<b>Cash and Cash Equivalents - End of Year</b>	<u><b>\$ 139,708</b></u>	<u><b>\$ 156,016</b></u>	<u><b>\$ 21,690</b></u>	<u><b>\$ 317,414</b></u>

Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities

<b>Cash Flows From Operating Activities:</b>				
Operating Income (Loss)	\$ 26,513	\$ (12,097)	\$ 2,691	\$ 17,107
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	2,504	32,135	-	34,639
Change in Pension Expense	1,106	1,107	-	2,213
Changes in Assets and Liabilities:				
Accounts Receivable	(672)	(225)	(68)	(965)
Accounts Payable	(123)	(520)	690	47
Accrued Leave	151	151	-	302
Water Deposits	-	900	-	900
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>\$ 29,171</b></u>	<u><b>\$ 21,555</b></u>	<u><b>\$ 3,313</b></u>	<u><b>\$ 54,039</b></u>

The notes to the financial statements are an integral part of this statement.



**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final to Actual</u>
<b>Revenues</b>				
Property Taxes	\$ 150,000	\$ 150,000	\$ 152,127	\$ 2,127
Special Assessments	--	--	275	275
Licenses and Permits	3,500	3,500	3,970	470
Local Government Aid	61,698	61,698	61,698	--
PERA Aid	241	241	241	--
Fire Aid	3,500	3,500	10,398	6,898
Donations	--	--	300	300
Miscellaneous	--	--	2,500	2,500
Interest Revenue	50	50	743	693
Insurance Dividends	500	500	4,552	4,052
Miscellaneous	2,220	2,220	2,300	80
<b>Total Revenues</b>	<u>221,709</u>	<u>221,709</u>	<u>239,104</u>	<u>17,395</u>
<b>Other Financing Sources</b>				
Transfers in	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>--</u>
<b>Total Revenues and Other Financing Sources</b>	<u>239,709</u>	<u>239,709</u>	<u>257,104</u>	<u>17,395</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Mayor and Council Salaries	5,000	5,000	4,675	325
Clerk-Treasurer Salaries	48,000	48,000	47,941	59
Clerk-Treasurer Payroll Taxes and Benefits	11,352	11,352	11,161	191
Employee Health Insurance	15,000	15,000	18,270	(3,270)
Assessor Salaries	2,900	2,900	2,900	--
Travel	1,300	1,300	1,565	(265)
Bonds and Insurance	15,000	15,000	15,622	(622)
Professional Fees	10,100	10,100	10,335	(235)
Property Taxes/Ditch Lien	425	425	421	4
Dues/Conferences/Training	2,100	2,100	2,111	(11)
Office Supplies	4,350	4,350	4,491	(141)
Telephone	4,300	4,300	4,271	29
Utilities	12,000	12,000	5,780	6,220
Building Repairs and Maintenance	1,150	1,150	2,487	(1,337)
Miscellaneous	250	250	470	(220)
Election Expenditures	800	800	305	495
Capital Outlay	4,360	4,360	1,308	3,052
<b>Total General Government</b>	<u>138,387</u>	<u>138,387</u>	<u>134,113</u>	<u>4,274</u>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund - Continued**  
**For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final to Actual</u>
<b>Public Safety:</b>				
Ambulance Dues	500	500	500	--
Volunteer Retention Stipend	--	--	2,500	(2,500)
Civil Defense	--	--	132	(132)
State Relief Association Aid	3,500	3,500	10,398	(6,898)
Equipment and Repairs	300	300	--	300
Total Public Safety	<u>4,300</u>	<u>4,300</u>	<u>13,530</u>	<u>(9,230)</u>
<b>Public Works:</b>				
Salaries	16,500	16,500	15,156	1,344
Payroll Taxes	2,075	2,075	2,098	(23)
Shop Supplies	1,800	1,800	937	863
Shop Utilities	7,080	7,080	6,825	255
Repairs and Maintenance	1,500	1,500	3,086	(1,586)
Sealcoating & Crack filling	14,000	14,000	16,680	(2,680)
Vehicle Operating Expenditures	5,300	5,300	3,574	1,726
Miscellaneous	2,584	2,584	1,236	1,348
Capital Outlay	25,700	25,700	47,001	(21,301)
Total Public Works	<u>76,539</u>	<u>76,539</u>	<u>96,593</u>	<u>(20,054)</u>
<b>Culture and Recreation:</b>				
Salaries	600	600	536	64
Payroll Taxes	52	52	41	11
Repairs and Maintenance	100	100	364	(264)
Utilities	250	250	279	(29)
Supplies/Miscellaneous	4,960	4,960	8,863	(3,903)
Total Culture and Recreation	<u>5,962</u>	<u>5,962</u>	<u>10,083</u>	<u>(4,121)</u>
<b>Total Expenditures</b>	225,188	225,188	254,319	(29,131)
<b>Other Financing Uses</b>				
Transfers to Other Funds	6,000	6,000	39,933	(33,933)
<b>Total Expenditures and Other Financing Uses</b>	<u>231,188</u>	<u>231,188</u>	<u>294,252</u>	<u>(63,064)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>				
	<u>8,521</u>	<u>8,521</u>	<u>(37,148)</u>	<u>(45,669)</u>
<b>Net Change in Fund Balance</b>	<b>8,521</b>	<b>8,521</b>	<b>(37,148)</b>	<b>(45,669)</b>
<i>Fund Balance at Beginning of Period</i>	<u>246,145</u>	<u>246,145</u>	<u>246,145</u>	<u>--</u>
<b>Fund Balance at End of Period</b>	<b>\$ 254,665</b>	<b>\$ 254,665</b>	<b>\$ 208,997</b>	<b>\$ (45,669)</b>

The notes to the financial statements are an integral part of this statement.

**City of Milroy**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Fire**  
**For the Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final to Actual</u>
<b>Revenues</b>				
Volunteer Fire Stipend	\$ --	\$ --	\$ 11,500	\$ 11,500
Refunds and Reimbursements	--	--	1,600	1,600
Interest Revenue	--	--	220	220
Miscellaneous	500	500	3,771	3,271
User charges	13,500	13,500	16,500	3,000
<b>Total Revenues</b>	<b>14,000</b>	<b>14,000</b>	<b>33,591</b>	<b>19,591</b>
<b>Other Financing Sources</b>				
Transfers from Other Funds	--	--	39,933	39,933
<b>Total Revenues and Other Financing Sources</b>	<b>14,000</b>	<b>14,000</b>	<b>73,524</b>	<b>59,524</b>
<b>Expenditures</b>				
Salaries	2,500	2,500	13,860	(11,360)
Payroll Taxes	225	225	1,099	(874)
Professional Fees	3,447	3,447	4,680	(1,233)
Dues/Conferences/Training	1,750	1,750	1,814	(64)
Supplies	2,850	2,850	633	2,217
Repairs/Maintenance	3,500	3,500	2,295	1,205
Civil Defense Per Diem	500	500	500	--
Utilities	85	85	94	(9)
Capital Outlay	1,500	1,500	2,838	(1,338)
<b>Total Expenditures</b>	<b>16,357</b>	<b>16,357</b>	<b>27,813</b>	<b>(11,456)</b>
<b>Other Financing Uses</b>				
Transfers to Other Funds	6,000	6,000	--	6,000
<b>Total Expenditures and Other Financing Uses</b>	<b>22,357</b>	<b>22,357</b>	<b>27,813</b>	<b>(5,456)</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>				
	(8,357)	(8,357)	45,711	54,068
<b>Net Change in Fund Balance</b>	<b>(8,357)</b>	<b>(8,357)</b>	<b>45,711</b>	<b>54,068</b>
<i>Fund Balance at Beginning of Period</i>	34,275	34,275	34,275	--
<b>Fund Balance at End of Period</b>	<b>\$ 25,918</b>	<b>\$ 25,918</b>	<b>\$ 79,986</b>	<b>\$ 54,068</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so.

The more significant accounting policies established by GAAP and used by the City are discussed below.

**A. REPORTING ENTITY**

The City of Milroy, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four member council form of government. The council has control over all activities related to the City of Milroy. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the City (the primary government), which has no component units. The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* to define the reporting entity. The City includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Unit**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity to comprise the primary government presentation. Currently, the City has one blended component unit, the Economic Development Authority.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. REPORTING ENTITY (Continued)**

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

**Related Organization**

A related organization is excluded from the financial reporting entity. The City's accountability does not extend beyond the Mayor, Clerk-Treasurer and Fire Chief being ex officio members of the board. The related organization is as follows:

Milroy Fire Relief Association – The Association is organized as a non-profit organization by its members to provide pension and other benefits to members in accordance with Minnesota statutes. The Association's Board of Directors consists of seven members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through the City to the Association. The Association pays benefits directly to its members.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. They include all funds of the reporting entity except for fiduciary funds (of which, the City has none).

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column on the fund financial statements.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The city maintains fire, economic development and fitness center special revenue funds.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)**

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains water, sewer and garbage enterprise funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *Fire Fund* accounts for all activities of the fire fund.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water system.

The *Sewer Fund* accounts for the operations of the City's sewer system.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The City has elected not to follow subsequent private sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)**

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE**

**Deposits and Investments**

For the purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Receivables and Payables (Continued)**

All trade (utility) and property tax receivables are shown at a gross amount, since both taxes and trade (utility) receivable are assessable to the property taxes and are collectible upon sale of the assessed property.

The City levies its property tax for the subsequent year during the month of October. Property taxes attach as an enforceable lien on property as of January 1. Revenues are accrued and recognized in the year collectible.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected.

These assessments are payable with interest over a period of years. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January each year. The County Treasurer mails copies of all real estate and personal property tax statements.

Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both non-agricultural and agricultural property and the second payment is due on October 15 for non-agricultural property and November 15 for agricultural property. Personal property taxes may be paid on May 15 and October 15. The County is the collection agent for the levy. The County provides tax settlements to cities and other taxing districts three times a year in January, June, and December. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Portions of the tax levy paid by the state in the form of market value assistance are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue. Delinquent property taxes are deferred and recognized when received or in the hands of the collection agency in the fund financial statements since they do not constitute "available spendable resources". In the government-wide financial statements, under the accrual basis of accounting, they are recognized as revenues since they are earned. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets (i.e., roads, bridges, sidewalks, drainage, and similar items), and intangible assets (i.e. internally generated computer software) are reported in the application governmental or business-type activities column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 required that the City report and depreciate new infrastructure assets effective fiscal year ending December 31, 2004. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to December 31, 2003, were not required to be capitalized by the City. These infrastructure assets are likely to be the largest asset class of the City. Neither the historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for cities of this size. City has elected not to record infrastructure values retroactively as allowed by accounting principles generally accepted in the United States of America.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Capital Assets (Continued)**

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Capital assets of the enterprise funds are capitalized in the funds.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Infrastructure	15-65 Years
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Bond premium and discounts, as well as issuance costs, are recognized as an outflow of resources and expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and expensed in the period they are incurred.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Compensated Absences**

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements and the proprietary fund types. In the governmental funds of the fund financial statements, vacation and sick pay are recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee's resignations and retirements. These are liquidated according to the fund they relate to.

Employees earn paid vacation at the rate of 4 hours per pay period for the first five years of service, 5 hours per pay period for years 6-8, 7 hours per pay period for years 9-12, 7.5 hours per pay period for years 13-17 and 8 hours per pay period for years 18 plus. Vacation leave may be carried over from year to year, up to a maximum of two times the amount earned in a year. Upon retirement or termination of employment in good standing, employees are entitled to receive pay for their unused vacation leave as severance pay. These hours will be prorated. The liability for unused vacation pay is recorded as accrued wages and benefits on the Statement of Net Position. Vacation time is paid out 100 percent.

Employees receive 4 hours of sick leave per pay period regardless of the number of years of service. Sick/personal days can be carried over to the next year and an employee can accumulate up to 25 days or 200 hours, anything over is lost at year end. Unused sick/personal days are paid upon termination at 50 percent.

**Fund Balance Classifications**

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)**

**Fund Balance Classifications (Continued)**

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2016, the unassigned fund balance of the General Fund was 65% of the subsequent year's budgeted expenditures.

**Net Position Classifications**

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- Restricted net position- Consists of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- Unrestricted net position- All other net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows/Inflows of Resources**

The City of Milroy implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities for the year ended December 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City of Milroy currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The City of Milroy has two types of items that qualify for reporting in this category; unearned property taxes and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

As of December 31, 2016, the City has deferred outflows/inflows as follows:

	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Unearned Property Taxes	\$ -	\$ 5,182
Amounts relating to Pensions	43,913	13,272

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**F. PENSIONS**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Pensions are allocated between governmental activities and business-type activities in accordance with the allocation of employee's wages. Approximately 66% is allocated to governmental and 34% to business-type.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

**Budgets**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund. Budgets have not been adopted for the major Small Cities Development Special Revenue Fund as prescribed by Government Auditing Standards.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The department heads submit to the city clerk a budget of estimated expenditures for the ensuing year after which the City Clerk subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.
2. Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. BUDGETARY INFORMATION (Continued)**

3. At least ten days prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council.
4. Budgeted amounts are as originally adopted by the City Council. All supplemental appropriations require the approval of the City Council. There were no amendments to the original appropriations. The City prepared and adopted a legal budget.
5. All budgeted appropriations lapse at the end of the year. The legal level of budgetary control is at the functional level.

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund utilized the same basis of accounting for both budgetary purposes and actual results.

**Encumbrances**

The City does not utilize encumbrance accounting.

**B. FUND BALANCE CLASSIFICATION**

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	General Fund	Fire Fund	Other Governmental Funds	Totals
Nonspendable:				
Prepaid items	\$6,631	\$0	\$0	\$6,631
Committed to:				
Capital Acquisition	17,881	79,986	0	97,867
Sealcoating/Crack filling	35,405	0	0	35,405
Assigned:				
Fitness Center	0	0	15,470	15,470
Economic Development	0	0	19,602	19,602
Unassigned	149,080	0	0	149,080
<b>Total Fund Balances</b>	<b>\$208,997</b>	<b>\$79,986</b>	<b>\$35,072</b>	<b>\$324,055</b>



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following fund had excess expenditures over appropriations as of December 31, 2016:

General Fund	\$29,131
Fire Fund	\$11,456

**D. DEFICIT FUND BALANCES**

There were no funds with a deficit fund balances as of December 31, 2016.

**E. DEBT RESTRICTIONS AND COVENANTS**

**General Obligation Debt**

Minnesota Statutes §475.53, subd. 3 limits the amount of outstanding general obligation bonded debt of the municipality. The City complies with such laws.

**NOTE 3. DETAIL NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes all treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota statutes also require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

According to Minnesota Statutes, government depositors receive \$250,000 FDIC coverage for their demand accounts and a separate \$250,000 FDIC coverage for their time/savings accounts if the bank is located in the same state as the government entity. If the depository bank is located in a different state, there is just one \$250,000 coverage available for all demand and time/savings accounts combined.

*Custodial Credit Risk – Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had a bank balance of \$634,252 at December 31, 2016, that was fully insured by depository insurance or secured with collateral held by the City's agent in its name. The carrying amount of these deposits at December 31, 2016 was \$634,233.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investment Policy**

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio. This policy sets for the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a.) Direct obligations or obligations guaranteed by the United States or its agencies.
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c.) General obligations of the State of Minnesota or its municipalities.
- d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The City does not have any investment policies that would further limit investment choices.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investment Policy (Continued)**

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City's investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the City limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2016 the City had no investments.

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2016 the City had no investments.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**B. ACCOUNTS RECEIVABLE**

Accounts receivable of the business-type activities consist of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end.

Accounts receivable of the governmental activities consist almost entirely of delinquent taxes. The balance as of December 31, 2016 is \$9,731. Delinquent taxes and special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2016 is \$5,182.

**C. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 is as follows:

<b>Governmental Activities:</b>	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital Assets Not Being Depreciated:				
Land	\$27,987	\$0	\$0	\$27,987
Total Capital Assets Not Being Depreciated	27,987	0	0	27,987
Capital Assets Being Depreciated:				
Buildings and Improvements	381,211	7,748	0	388,959
Machinery and Equipment	711,537	51,146	0	762,683
Total Capital Assets Being Depreciated	1,092,749	58,894	0	1,151,642
Less Accumulated Depreciation for:				
Buildings and Improvements	145,936	15,191	0	161,128
Machinery and Equipment	471,193	42,587	0	513,779
Total Accumulated Depreciation	617,129	57,778	0	674,907
Total Capital Assets Being Depreciated, Net	475,620	1,116	0	476,735
 Governmental Activity Capital Assets, Net	 \$503,607	 \$1,116	 \$0	 \$504,722

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**C. CAPITAL ASSETS (Continued)**

<b>Business-Type Activities:</b>	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital Assets Being Depreciated:				
Equipment and Improvements	\$602,050	\$0	\$0	\$602,050
Total Capital Assets Being Depreciated	<u>602,050</u>	<u>0</u>	<u>0</u>	<u>602,050</u>
Less Accumulated Depreciation for:				
Equipment and Improvements	172,409	34,639	0	207,048
Total Accumulated Depreciation	<u>172,409</u>	<u>34,639</u>	<u>0</u>	<u>207,048</u>
Total Capital Assets Being Depreciated, Net	<u>429,640</u>	<u>(34,639)</u>	<u>0</u>	<u>395,001</u>
 Business-Type Activity Capital Assets, Net	 <u>\$429,640</u>	 <u>(\$34,639)</u>	 <u>\$0</u>	 <u>\$395,001</u>

Depreciation Expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General Government	\$2,938	Water	\$32,135
Public Safety	27,574	Garbage	0
Street and Highways	11,833	Sewer	<u>2,504</u>
Culture & Recreation	4,933	Total Depreciation Expense-	
Depreciation-Unallocated	<u>10,500</u>	Business-Type Activities	<u>\$34,639</u>
Total Depreciation Expense-			
Governmental Activities	<u>\$57,778</u>		

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**D. ACCOUNTS PAYABLE**

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors.

**E. LONG-TERM LIABILITIES**

Description of Long-Term Debt

Long-term debt is comprised of the following as of December 31, 2016:

<u>Issuance</u>	<u>Original Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
Business Type Activities:				
GO Utility Revenue Bond	\$451,000	02/01/30	2.95%	<u>\$441,000</u>
Total Outstanding Long-term Debt				<u><u>\$441,000</u></u>

General Obligation Revenue Bonds

The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital improvements. General obligation revenue bonds have been issued for the water fund, which is also the fund used to liquidate the debt. The bonds are direct obligations and pledge the full faith, credit and taxing power of the City. Interest paid in 2016 was \$16,224.

Minimum Debt Payments

Minimum annual principal and interest payments to retire general obligation bonds payable are as follows:

Revenue Bonds		
Business-Type Activities	<u>Principal</u>	<u>Interest</u>
12/31/2017	25,000	12,641
12/31/2018	26,000	11,889
12/31/2019	27,000	11,107
12/31/2020	28,000	10,295
12/31/2021	29,000	9,455
2022 to 2026	160,000	33,632
2027 to 2031	146,000	8,762
Total	<u><u>441,000</u></u>	<u><u>97,781</u></u>

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**E. LONG-TERM LIABILITIES (Continued)**

Changes in Long-Term Liabilities

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/16</u>	Due in <u>One Year</u>
Governmental Activities:					
Accrued Leave	\$9,411	\$8,688	\$8,101	\$9,999	\$0
Net Pension Liability	44,466	34,864	9,665	69,665	0
Total Governmental Activities	53,877	43,552	17,765	79,664	0
Business-Type Activities:					
GO Utility Revenue Bond	451,000	0	10,000	441,000	25,000
Accrued Leave	1,797	2,957	2,656	2,098	0
Net Pension Liability	22,906	17,960	4,978	35,888	0
Total Business-Type Activities	475,703	20,917	17,634	478,986	25,000
	529,580	64,469	35,399	558,650	25,000

**F. INTERFUND TRANSACTIONS**

Inter-fund Transfers

Transfers between funds of the primary government for the year ended December 31, 2016 were as follows:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General	Fire	Deficit Cash	\$33,933
General	Fire	Truck Fund Contribution	\$6,000
Sewer	General	Operations	\$18,000
Sewer	Water	Debt Payment	\$6,000

Inter-fund Balances

At December 31, 2016, there were no inter-fund balances.



**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 4. OTHER INFORMATION**

**A. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Intergovernmental Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating cities if a deficiency occurs. The LMCIT is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2016, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

**B. COMMITMENTS AND CONTINGENCIES**

*Grant Program Involvement*

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

*Litigation*

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of potential litigation cannot be predicted, due to the insurance coverage maintained by the City, the City feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

**C. FEDERAL AIDS – SINGLE AUDIT ACT**

The City expended less than \$750,000 of federal financial assistance and is exempt from the audit requirements of the Single Audit Act and all other federal audit requirements.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**A. PLAN DESCRIPTION**

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan

All full time and certain part time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**B. BENEFITS PROVIDED**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**B. BENEFITS PROVIDED (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for the Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age of 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**C. CONTRIBUTIONS**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the years ended December 31, 2016, 2015, and 2014 were \$6,409, \$6,022 and \$5,698, respectively. The City's contributions were equal to the required contributions as set by the state statute.

**D. PENSION COSTS**

General Employee Fund Pension Costs

At December 31, 2016, the City reported a liability of \$105,554 for its proportionate share of the General Employee Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million into the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,465. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**D. PENSION COSTS (Continued)**

The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2016, the City’s proportion was 0.0013% which no change from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$14,802 for its proportionate share of General Employee Fund’s pension expense. In addition, the City recognized an additional \$437 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of General Employee Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience		\$ 8,574
Changes in Actuarial Assumptions	\$ 20,667	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 20,035	
Changes in Proportion		\$ 4,698
Employer Contributions Subsequent to the Measurement Date	<u>\$ 3,213</u>	
Totals	<u>\$ 43,915</u>	<u>\$ 13,272</u>

\$3,213 reported as deferred outflows of resources related to pensions resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2017	\$6,712
2018	\$6,712
2019	\$10,193
2020	\$3,813
2021	\$0
Thereafter	\$0

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**E. ACTUARIAL ASSUMPTIONS**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**CITY OF MILROY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

**F. DISCOUNT RATE**

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. PENSION LIABILITY SENSITIVITY**

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City’s proportionate share of the General Employees Fund net pension liability:	\$149,917	\$105,554	\$69,010

**H. PENSION PLAN FIDUCIARY NET POSITION**

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A**

CITY OF MILROY  
 SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 PUBLIC EMPLOYEES GENERAL EMPLOYEES FUND

Fiscal Year	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Ending</u>					
6/30/16	0.0013%	\$105,554	\$83,067	127.07%	68.90%
6/30/15	0.0013%	67,373	78,566	85.75%	78.20%

\* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

\*\*For purposes of this schedule, covered employee payroll is defined as "pensionable wages".



**CITY OF MILROY**  
**SCHEDULE OF CITY'S CONTRIBUTIONS**  
**PUBLIC EMPLOYEES GENERAL EMPLOYEES FUND**

Fiscal Year <u>Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
December 31, 2016	\$6,409	\$6,409	-	\$85,450	7.50%
December 31, 2015	6,022	6,022	-	80,301	7.50%

\* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

\*\*For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

**CITY OF MILROY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2016**

**NOTE 1. DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**General Employees Fund**

*2016 Changes*

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

*2015 Changes*

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

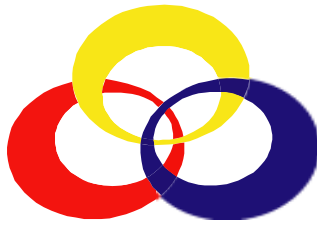
## **OTHER SUPPLEMENTARY INFORMATION**

**City of Milroy  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2016**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Authority</u>	<u>Fitness Center</u>	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 20,842	\$ 16,896	\$ 37,738
<i>Total Assets</i>	20,842	16,896	37,738
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 20,842</u>	<u>\$ 16,896</u>	<u>\$ 37,738</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 140	\$ 29	\$ 169
Deposits	1,100	--	1,100
Unearned Revenue	--	1,397	1,397
<i>Total Liabilities</i>	<u>1,240</u>	<u>1,426</u>	<u>2,666</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>1,240</u>	<u>1,426</u>	<u>2,666</u>
<b>FUND BALANCE</b>			
Assigned	19,602	15,470	35,072
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>19,602</u>	<u>15,470</u>	<u>35,072</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 20,842</u>	<u>\$ 16,896</u>	<u>\$ 37,738</u>

**City of Milroy**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2016**

	Special Revenue		Total Nonmajor Governmental Funds
	Economic Development Authority	Fitness Center	
<b>Revenues</b>			
Charges for Services	\$ 6,630	\$ 9,702	\$ 16,332
<b><i>Total Revenues</i></b>	<b>6,630</b>	<b>9,702</b>	<b>16,332</b>
<b>Expenditures</b>			
Economic Development	2,460	--	2,460
Fitness Center	--	6,175	6,175
Capital Outlay	--	7,748	7,748
<b><i>Total Expenditures</i></b>	<b>2,460</b>	<b>13,923</b>	<b>16,383</b>
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	<b>4,170</b>	<b>(4,221)</b>	<b>(51)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
<b><i>Net Other Financing Sources (Uses)</i></b>	<b>--</b>	<b>--</b>	<b>--</b>
<b><i>Net Change in Fund Balance</i></b>	<b>4,170</b>	<b>(4,221)</b>	<b>(51)</b>
<b><i>Fund Balance at Beginning of Period</i></b>	<b>15,432</b>	<b>19,691</b>	<b>35,123</b>
<b><i>Fund Balance at End of Period</i></b>	<b>\$ 19,602</b>	<b>\$ 15,470</b>	<b>\$ 35,072</b>



**Kinner & Company Ltd**  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of the Council  
City of Milroy  
Milroy, Minnesota 56263

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milroy, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Milroy, Minnesota's basic financial statements and have issued our report thereon dated March 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Milroy, Minnesota's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financials statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milroy, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milroy, Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Prior and Current Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in *internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2016-1, to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Milroy, Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Milroy, Minnesota's Response to Findings**

City of Milroy, Minnesota's response to the findings identified in our audit is described in the accompanying Schedule of Prior and Current Findings and Responses. City of Milroy, Minnesota response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, public indebtedness, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because this provision does not apply to the City of Milroy, Minnesota.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Milroy, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Milroy, Minnesota's noncompliance with the above referenced provisions.

## **Purpose of Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kinner & Company Ltd*

Kinner & Company Ltd  
Certified Public Accountants

March 27, 2017

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**CITY OF MILROY  
SCHEDULE OF PRIOR AND CURRENT  
FINDINGS AND RESPONSES  
DECEMBER 31, 2016**

**STATUS OF PRIOR AUDIT FINDINGS**

**Finding 2015-1:** A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2016-1.



**CITY OF MILROY**  
**SCHEDULE OF PRIOR AND CURRENT**  
**FINDINGS AND RESPONSES**  
**DECEMBER 31, 2016**

**CURRENT YEAR FINDINGS**

**2016-1: The City does not maintain an adequate segregation of duties among its accounting personnel.**

**Criteria:** Internal controls can help the City of Milroy achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

**Condition:** A lack of segregation of duties over revenues and expenditures exists which could result in errors not being found in a timely manner.

**Cause:** The City has a limited number of employees to perform financial reporting duties.

**Effect:** This could result in a loss of control over accounting transactions and errors not being found in a timely manner.

**Recommendation:** Since we acknowledge that it is not economically feasible for the City to hire additional employees, we recommend the City Council take a more active role in their oversight over revenues and expenditures.

**Corrective Action Plan:**

The following compensating controls are presently in place:

- The City Council reviews and approves all bills
- The City Council and/or other personnel periodically review various expenditure reports for amounts, classifications and comparison to budget.

**Council Response:**

City will continue to review its procedures to determine if any improvements can be made using the limited personnel available.